



Opening Statement of Senator Chuck Grassley
Hearing, U.S. Preference Programs: How Well Do They Work?
May 16, 2007

Today the Committee has an opportunity to evaluate the operation of our trade preference programs. I want to thank our witnesses for being with us today. Some of them have traveled long distances to be here, and I look forward to their testimony. Through our trade preference programs, the United States provides duty-free access for a broad array of products from developing countries. That preference is unilateral. Beneficiary countries are under no obligation to provide reciprocal duty-free access to our exports. The rationale is that, by expanding exports from developing countries, these programs will help to promote economic growth in the developing world.

Throughout most of my career in Congress, I've supported our preference programs. Recently, however, I've begun to question their worth. At the end of last year, I reluctantly agreed to short-term extensions for two programs, the Generalized System of Preferences and the Andean Trade Preference Act. I did so after reaching an understanding with Senator Baucus that the Finance Committee would reexamine these programs in the present Congress. That starts with today's hearing. The Generalized System of Preferences, or GSP, was enacted in 1974 as a temporary incentive for developing countries to become more active in the global trading system. Yet this program is anything but temporary. Over thirty years after GSP was implemented, some 143 developing countries and territories are eligible to receive preferential treatment under the program. Only a small percentage of recipient countries have ever been removed from GSP.

Not surprisingly, many developing countries now seem to view GSP benefits as an entitlement. For example, Brazil and India have highly competitive economies. They impose high tariffs on U.S. imports. They also contributed to the failure of the Cancun Ministerial of the Doha negotiations in the World Trade Organization. Yet, at the same time, they seem to feel they're entitled to continued benefits under the program. Last year we did take action to revoke GSP benefits for products that are "super-competitive" in the world market, including certain products from Brazil, India, and Venezuela. I supported that measure. But that's just a start.

We should look for additional ways to graduate products and countries from eligibility for GSP benefits. For example, the program could be retargeted away from advanced developing countries to help those countries that are truly impoverished. We should also consider the merits of eliminating this 1970s-era program altogether and starting with a fresh approach to economic

development and trade liberalization. Because that's where our focus should be, to further reduce trade barriers around the world. The current GSP program does little, if anything, to encourage trade liberalization. In fact, it creates a disincentive to further trade liberalization. After all, the status quo allows developing countries to have one-way duty-free access to the U.S. market for most of their products. Why should they want to change the status quo?

But the status quo does little to foster new economic growth, invite investment, strengthen capital markets, and lower costs while increasing choices for consumers in developing countries. And the status quo does little, if anything, to spur progress in the multilateral negotiations of the Doha Round in the World Trade Organization.

As for the Andean Trade Preference Act, or ATPA, I see no reason to extend this program. Peru and Colombia have negotiated and signed free trade agreements with us. These trade agreements provide for the eventual elimination of duties on U.S. exports. That's a clear improvement over the ATPA. I look forward to implementing these agreements as soon as possible.

As for Bolivia and Ecuador, I see no reason to further extend ATPA benefits. In fact, it boggles my mind that the governments of Ecuador and Bolivia would even ask us for extensions of these trade preferences. After all, the current leaders of those two countries have based their careers on attacking U.S. policies—our trade policies in particular. Yet, ironically, they wrap their arms around one U.S. trade law, the ATPA. Why? Because under this program they can sit back and receive duty-free access to our market no matter how irresponsibly they act. Apparently, it doesn't matter to them that Ecuador expropriated the assets of its largest foreign investor, a U.S. company, and subsequently sent in troops to guard the facilities that it seized. Apparently, it doesn't matter that President Morales of Bolivia nationalized Bolivia's hydrocarbon sector and ordered the Bolivian military to occupy gas fields. President Morales also threatened to evict foreign companies, including U.S. companies, unless they turned the titles to their properties over to the state. Well, the fact is, those actions matter to me. We should not reward the bad behavior of those two governments by maintaining unilateral trade preferences on their exports to the United States. We should not let ATPA evolve into an entitlement program. Instead, we should allow ATPA to lapse, and then see what type of economic relationships the governments of Bolivia and Ecuador want to establish with the United States. For starters, those relationships must be based on a genuine respect for the rule of law.